

Message Text

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INFO OCT-01 NEA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
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DRAFTED BY TREAS: OASIA/IMA BARRY NEWMAN
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TREAS: THOMAS LEDDY
TREAS: L. UID;AN
NEA/ARP: ZIOLKOWSKI

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-----066264 120819Z /15
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FM SECSTATE WASHDC
TO AMEMBASSY KUWAIT

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E.O. 11652:

TAGS:

SUBJECT:CURRENCY BASKET PRICING FOR OIL

REF: KUWAIT 4216
FOR AMBASSADOR FROM TREASURY UNDER SECRETARY SOLOMON

1. I APPRECIATE THE TIMELY REPORT OF YOUR RECENT DISCUSSION
WITH SHAIKH ALI KHALIFA CONCERNING THE RECENT OPEC EXPERTS
MEETING ON THE USE OF A CURRENCY BASKET AS THE PRICING
UNIT FOR OIL. THE FOLLOWING WILL CLARIFY NEWS REPORTS THAT
THE U.S. OPPOSES A SHIFT FROM THE DOLLAR TO A CURRENCY
BASKET.

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2. DURING MY JULY 24 APPEARANCE BEFORE A SENATE FOREIGN
RELATIONS SUBCOMMITTEE, I MADE SEVERAL POINTS:

A) ANY DECISION TO SHIFT TO A CURRENCY BASKET MUST
BE MADE BY ALL OPEC MINISTERS, AND THE JULY

MEETING INVOLVED ONLY AN EXPERTS GROUP.

B) IT IS BY NO MEANS CERTAIN OR LIKELY OPEC MINISTERS WOULD DECIDE TO SHIFT FROM DOLLAR PRICING TO A BASKET. SAUDI ARABIA AND SOME OTHER KEY OPEC MEMBERS HAVE FELT THAT IT WAS

NOT IN THEIR LONG-TERM INTEREST TO MOVE TO BASKET PRICING. I NOTED THAT AS REPORTED BY IRANIAN IMF EXECUTIVE DIRECTOR AMUZEGAR IN A RECENT FOREIGN AFFAIRS ARTICLE, HAD OPEC ADOPTED THE SDR BASKET FOR OIL PRICING

IN JUNE 1975, SUBSEQUENT OPEC OIL REVENUES WOULD HAVE BEEN ON THE ORDER OF TWENTY TO TWENTY SEVEN BILLION LOWER THAN THE ACTUALLY RECEIVED.

C) THERE COULD BE AN UNFORTUNATE THOUGH SHORT-LIVED PSYCHOLOGICAL MARKET REACTION TO A DECISION TO SHIFT, AND THEREFORE WE WOULD BE AGAINST SUCH A MOVE, ALTHOUGH IT IS NOT A MAJOR FACTOR TO US IN THE LONG RUN AND WE MIGHT VERY WELL BENEFIT UNDER CERTAIN CONDITIONS -- E.G., AN APPRECIATION OF THE DOLLAR AGAINST THE BASKET WOULD REDUCE THE DOLLAR COST OF OIL IMPORTS.

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D) SHIFTING BACK AND FORTH BETWEEN THE DOLLAR AND A BASKET TO OFFSET EXCHANGE RATE CHANGES WOULD DEMORALIZE TRADE, AND WE WOULD ASSUME THAT OPEC WOULD TAKE A MORE RESPONSIBLE APPROACH.

3. I AM SENDING YOU BY POUCH A TREASURY BACKGROUND PAPER ON THIS MATTER WHICH YOU MAY FIND USEFUL TO DRAW UPON IN FUTURE DISCUSSIONS WITH KUWAIT OFFICIALS. AS YOU KNOW,

SECRETARY BLUMENTHAL MAY BE VISITING THE MIDDLE EAST IN NOVEMBER. HE WOULD EXPECT TO DISCUSS THIS MATTER FURTHER WITH KUWAITI OFFICIALS AT THAT TIME. CHRISTOPHER

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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